Title:
Notes from A.M. Smith - Foreign investment

NOTES FOR THE HONOURABLE THE PREMIER ON ITEM 12:
FOREIGN INVESTMENT

1. DEGREE OF FOREIGN OWNERSHIP

The Commonwealth Statistician has recently published a study of overseas participation in Australian Manufacturing Industry for the years 1962-63 and 1966-67.

This bulletin showed that whereas in 1962-63 17.7% of total factory employment was in Australian factories which had significant overseas interests involved, by 1966-67 this ratio had risen to 20.4%.

The bulletin gave some interesting percentages. The industries particularly dominated by overseas investment and/or control are:-

Motor Vehicle Construction and Assembly	87%
Rolling and Extrusion of Non-Ferrous Metals (e.g. Aluminium and Copper)	83%
Oil Industry	81%
Heavy Chemicals, Acids etc.	76%
Paints, Varnishes etc.	66%
Pharmaceutical and Toilet Preparations	59%

In many of the above classes of industry there is no doubt that the enormous amounts of capital needed to commence these industries plus the technological know-how had to come from overseas countries at the time they were founded.

What is perhaps more disturbing, as it has less justification in terms of benefiting Australia's growth prospects, is the encroachment into food industries, usually by takeover of existing well-established and efficient firms. In the case of the jam, fruit and vegetable canning group, the proportion of employees in foreign owned or controlled factories rose in four years from 10.8% to 24.9%.

It is felt that there is a strong case for Government intervention to prevent takeovers of existing well-run Australian-owned organisations. Overseas participation in our economy can however be very valuable in three areas:-

(1) Where it can introduce whole new technologies;

(2) Where it can substantially improve management techniques; and

(3) Where access to international markets for export contracts is strongly facilitated by having direct participation of overseas companies.

2. LEVEL OF OUTFLOW OF PROFITS

The outflow of profits on account of overseas ownership in Australian-based companies could have been $569 million in 1968-69 if all income payable had been transferred. This amount had roughly doubled in the five years from 1963-64 when it was $287 million.

As a percentage of our net national product this "potential", not actual, drain has been rising, see the attached table, but at 2.6% in the latest year was still not a serious problem. In fact $284 million or about half of the $569 million payable was undistributed income earned by Australian branches or subsidiaries of overseas companies but retained here. Presumably this 50% was almost wholly re-invested in the Australian based companies.

Two troubling features of recent trends are:-

(1) The very large net annual inflows of private capital in the last few years (over $1,050 million in both 1967/68 and 1968/69 will generate substantial incomes due to overseas owners in years to come. If the capital inflow is interrupted either because of setbacks here or in the investing countries a nasty balance of payments problem on capital could occur. Instead of having a big surplus of capital inflow over repatriated profits and interest such as has occurred in recent years, deficits could suddenly occur and these could force the Federal Authorities into very unpleasant restrictive measures on the domestic

economy to prevent too heavy a loss of overseas reserves.

(2) The big investments in highly profitable mining and mineral processing operations have been a major part of total overseas investment in recent years. It is almost certain that from now on very substantial profits will be earned on these investments. Unless mining bonanzas are unearthed fairly frequently to encourage continued capital inflow or unless we can mobilise more Australian savings (both personal and institutional) and get them into these high profit ventures, and so quickly build up our capacity to stand this level of pay-out, we could start to experience difficulties.

3. POSSIBLE REMEDIES

The proposed new institution, the Australian Industries Development Corporation, about which conservative elements in the community are divided, has this State Government's support. It is a partial answer to the problem of raising capital to keep Australian ownership in industry at the highest level possible.

Another more defensive approach is to make appropriate use of exchange control and stock exchange regulations. By this means foreign takeovers of efficient local firms can be ruled out where they seem only to be satisfying the appetite of an overseas company and offer little or no advantage to Australia but pose a long-term threat.

(A.M. Smith)
SENIOR RESEARCH ECONOMIST.

POTENTIAL DRAIN ON AUSTRALIA'S NATIONAL PRODUCT

	*Income Payable on Portfolio Investment and Institutional Loans	Net National Product i.e. G.N.P. at Factor Cost Less Depreciation Allowances of Trading Enterprises	Potential Payout Overseas as Percentage of Net National Product
	$M.	$M.	
1948-49	46	3,814	1.21
1949-50	70	4,510	1.55
1950-51	89	6,176	1.44
1951-52	92	6,530	1.41
1952-53	97	7,150	1.36
1953-54	141	7,626	1.85
1954-55	146	8,166	1.79
1955-56	172	8,818	1.95
1956-57	181	9,494	1.91
1957-58	192	9,356	2.05
1958-59	232	10,136	2.29
1959-60	249	11,265	2.21
1960-61	239	11,867	2.01
1961-62	201	12,135	1.66
1962-63	260	13,177	1.97
1963-64	287	14,656	1.96
1964-65	292	16,090	1.81
1965-66	309	16,721	1.85
1966-67	337	18,396	1.83
1967-68	462	19,454	2.37 ø
1968-69	569	21,963	2.59

* Includes undistributed profits of Australian branches and subsidiaries.

ø Probably international oil companies' change in accounting treatment of imported crude prices.

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